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## Poland

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## Forestry situation in Poland and Baltics

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Solid Wood Products

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### Report Highlights:

This report offers a look at the current forestry situation in Poland, Lithuania, Latvia, and Estonia. The forestry industry is tremendously important to the economies of these nations. The global economic crisis has slowed demand for timber products. At present, the forestry sector seems to be recovering from the economic downturn. Most of these forests supply processing in Scandinavia. The region faces pest and disease problems, but overall forests are healthy and even expanding.

### General Information:

#### **POLAND**

The total forested area of Poland (under all forms of ownership) is over 9.0 million hectares [1], which is 28.9% of its territory. This ranks Poland third in the EU in terms of forested area (after France 17.5 million hectares, Germany 11.1 million hectares) and fourth in Western or Central Europe (after Ukraine 10.5 million hectares). The area of forests per inhabitant in Poland amounts to 0.24 and it has been stable since 2005. The forest cover (forest cover indicator) has been systematically growing from 28.7% since 2004 to 28.9% in 2007 and an

estimated 29.0% in 2008. Thanks to controlled harvests and implementation of the National Program of Forestation, there has been an increase in the size of Poland's forest area. In the first stage of the program (1995-2000) 111,300 hectares were forested, 11.3% more than projected. In the second stage (2001-2005), only 79% of the project was completed with 95,300 hectares of new forests. However since 2004 there has been an increase of 0.3% (around 22,000 hectares) every year. Seventy one percent of the increase was due to private forestation under the Rural Development Program 2004-2006 and 2007-2013, and to activating a new land registry system. The National Program for the Augmentation of Forest Cover (KPZL) anticipates an increase in forest cover to 30% by 2020 and 33% by 2050; however recent growth shows that this target will be very difficult to achieve, if not impossible. Poland's forests face critical threats, such as insect and disease outbreaks, drought, and fires.

Coniferous species represent 75% of Poland's forests. However, a positive trend can be noted as the percentage of deciduous trees that has grown in Poland from 13% in 1945 to 25% in 2008. Forty four percent of forests are trees between 20 and 60 years old; 22.0% are over 80 years old. The changes in timber volume in age classes suggest that the year-to-year increase in standing volume is not only the result of expanding the area of forests but also of the decline in timber harvest due to sustainable management by the State Forest Service. The average annual increment in gross saleable timber for the last 20 years including harvest and per hectare of forestland administered by the State Forests is 7.2 CUM/ha. In 2007, the gross amount was estimated to be 1.9 billion CUM (85% in State Forests). Poland keeps a large percentage of its forests under protection. In 2007, there were 3.4 million hectares of forested area under protection (37.5% of total Polish forest area), 97% of which was under State Forests [2].

Since 2007, there has been an increase in pests. In comparison to 2006, the acreage under insect threat increased 60% and is estimated at 427,000 hectares. The area afflicted by fungal diseases increased by 8% and is estimated at 505,000 hectares. Eleven percent of all forests are under significant attack by pests and diseases. The most common are root diseases. Forests have been observed dying recently (55,000 hectares, up 12% in comparison to 2006). However, according to European criteria for defoliation, in 2007 forests' health overall improved. In 2004-2007 the defoliation of all species fell from 34.6% to 20.2%. In 2007, there were 7101 fires, destroying 3,600 hectares. There has been a decrease in fires by 40% in comparison to 2006, but Poland fears climate change may make this worse.

In 2007, the total volume from final or pre-final cut wood amounted to 34.1 million cubic meters (CUM) of gross merchantable timber, a 13% increase in comparison with 2006. 94.6% was gained in State Forests (increase by 12.6% comparing to 2006) and 3.9% in private forests (increased by 22.8% comparing to 2006).

Total forestry production in 2007 amount to 8357.7 million PLN [USD 3376.3 million (exchange rate in Dec'07 according to National Polish Bank 1 USD = 2.4754 PLN) / USD 2543.5 million (current exchange rate April'09: 1 USD = 3.2859 PLN)], and increased by 22% in comparison to 2006. Wood export in 2007 attained a value of 9966.6 million PLN [USD 4026.3 million /USD 3033.1 million (current exchange)], and increased by 9.2% in comparison to 2006. Wood import amount to 4674.1 million PLN [USD 1888.2 million / USD 1422.5 million (current exchange)]. This 20% increase in import compared to the previous year, was a result of increased prices of wood sold by State Forests.

Total exports of rough lumber was 465,544 CUM in 2008, mostly to the EU, (intra-EU 443,928

CUM). Exports fell by 32% in comparison to 2007. The major origins were Austria (121,643 CUM), Italy (78,471 CUM), Czech Republic (62,003 CUM) and Germany (59,723 CUM). Total imports of wood in the rough estimated at 2,072,569 CUM (intra-EU 715,792 CUM) and increased by nearly 9%. Major origins for imports were Belarus (1 million CUM), Slovakia (314,384 CUM), Ukraine (291,920 CUM), Lithuania (221,504 CUM) and Germany (137,415 CUM).

State Forests have started to sell wood under a new system, including on-line auctions. Companies put their offers (required quantity and price) in the on-line system, and the computer evaluates received offers. However, the biggest companies from the forestry sector criticize the system, as they received much smaller quantities than what they ordered. This resulted in the situation that the major companies' demand was not covered, while there is still a significant amount of wood available for small companies. There is also an additional problem with wood prices: the State Forests agency controls prices and does not want to change this practice. Sometimes they set prices above other nations and Poland is forced to import. In February 2009, the State Forests agency was punished by the Office of Competition and Consumer Protection for violating antitrust law. The fine was estimated at 1.5 million PLN (nearly one half million USD). The system needs to be revised or changed completely, most argue. According to various wood and paper associations, the State Forests agency action has intensified the crisis in the whole forestry sector. Also due to the new EU regulations for renewable energy, the further increase in prices is expected. That situation is unfavorable for energy-intensive sectors of the economy.

The current economic situation in Poland is not favorable for the wood processing industry, or building industry. The furniture industry faced a huge crisis in 2008, as well. Many big and small companies went bankrupt or closed. In 2008, Poland lost its leadership in exports of window frames in Europe (30% market share in 2007, 20% in 2008 and expected further decline in 2009). The predictions for 2009 are not good in the furniture and window frames sectors. The prices of Polish wood are still high; the system of wood sales is not clear and does not work properly; the costs of manufacturing and processing are still high.

The forecasts for use of timber domestically the second half of 2009 are slightly better than at the beginning of the year.

## **LATVIA**

The forest sector is very important to the Latvian economy, as it involves 8% of all enterprises registered to do business in Latvia, employs around 5% of the population, and the share of the forest sector production in GDP constitutes around 5%. Nearly 70% of the production is exported (it is almost 25% of the total export value of Latvia). In 2007, the production value reached around EUR 2 billion.

High economic growth was observed in Latvia during 2005-2007 (annual average increase of GDP: 11%). However since the middle of 2007, that growth started to decline. In 2007, the GDP on average increased by 10.3% and in the first half of 2008, the GDP has increased only by 1.6% compared to the same period a year earlier. A major factor influencing the economy in Latvia is the rapid fall of general domestic demand, affecting forest based industries. Also weaker demand in Latvia's trade partners and a decrease of Latvian competitiveness intensified the crisis that the forest sector faced. In the first half of 2008, the value of forest sector products' export dropped 12%. The most significant decrease was reported in sawn wood exports, a drop in income of 35.9%. Sawn wood exports have always been the biggest share

in the export of the sector, accounting for one third of total income.

In comparison with developed wood processing countries where the added value of production from 1 CUM of wood reaches 400–600 EUR, Latvia with 160 EUR/CUM has development potential of at least twice or three times. This can be achieved by introducing better technology, raising the productivity of labor and developing new products. When it seems clear that the economy is ready for investments after some economic stability, the forest sector will recover.

Total exports of rough wood are estimated at 3,881,324 CUM in 2008 (intra-EU 1,431,000 CUM). The major buyers are Sweden (2,625,603 CUM), Finland (606,223 CUM), Poland (467,330 CUM), and Latvia (359,012 CUM). Since 2004 there have been variations in the export volume; however it seems to be fairly stable since.

## **LITHUANIA**

Forestry is an important branch of the Lithuanian economy; worth about 4 percent of GDP. and employs 5% of the population.

In 2008, total forested area was estimated at 2.143 million hectares (32.8% of the country's territory). Since 2001, the area has increased by 122,500 ha adding 2% to total forest cover. Forestland increased mainly at the expense of swamps and abandoned agricultural land. Since 2001, the average growing stock in all forests increased by 14 CUM/ha to 207 CUM/ha. The amount of the accumulated available stock is rising due to increasing area of forest stands as well as increasing average yield per hectare. In 2008, the total growing stock was 421.6 million CUM. The area of mature stands has expanded from 294,000 to 361,000 hectares, and mature growing stock has increased from 73.7 to 94.0 million CUM. The average forest area per capita increased from 0.57 ha to 0.64 hectares, and growing stock volume – from 106 CUM to 127 CUM.

2008 has brought a lot of changes. The major factor for production conditions was a drop in demand for certain types of products and a sharp increase in production costs. The decrease in investment is the cause for the sharp drop in construction and at the same time the lower demand for building materials, and lower exports. Consumer demand for furniture and other timber products is falling and this trend will continue for at least another year.

So far the crisis has not hit all companies; for example, the production of furniture and paper is still growing. The comparison of the results of two succeeding years reveals that only sawmilling experienced a fall and so far not a very considerable one. In the first nine months of 2007 the timber industry (furniture excluded) had sales amount 2.03 billion litai, while in the same period in 2008, sales were 1.91 billion litai (553.6 million euros). Over the same period, sales by the paper and furniture production industries grew 15.1 and 14.9% respectively. The overall sales of the wood processing sector did not shrink, but grew by 5.7%. In 2007, furniture accounted for 42.4% of all timber products' production, while in 2008 it came to 47.4%.

Total exports of rough wood are estimated at 1,712,449 CUM in 2008 (intra-EU 1,677,304 CUM). The major buyers are Sweden (489,621 CUM), Finland (303,435 CUM), and Estonia (503,376 CUM). Between 2004 and 2007 there have been variations in the export (between 1.356 and 1.050 million CUM); however it seems to be fairly stable.

## ESTONIA

The area of forest land in Estonia has more than doubled since the Second World War, to cover 2.3 million hectares. That is 51.5% of Estonia's territory. Privatization of land started soon after independence from Soviet occupation in 1991. In 2002, 37% of the forests were private, while another 25% were in the process of being privatized. Today, approximately 70% (1.5 million hectares) are commercial forests under forest management. There are about 70,000 forest owners, whose average property covers just 10-20 hectares. Only 5% of them are members of a private foresters association. About 10% of the Estonian forests belong to foreign investors.

Forests are one of the greatest riches of Estonia, both with regard to nature and economy.

However 40% of private forest owners are retired people spending significant amounts of time far from their property. For others, forestry is a small share of family income. Many lack tools to manage their forests and work with larger operators.

Estonia's forest production had the sharpest decline in nine years in May 2008. Production fell a monthly 4.8 percent on a seasonally adjusted basis. Total exports of rough wood are estimated at 1,538,339 CUM in 2008 (intra-EU 3,779,046 CUM). The major buyers are Sweden (809,467 CUM) and Finland (587,048 CUM). Export fell nearly twice since 2004, but in comparison to 2007, there has been only 2.5% decrease.

### FOOTNOTES:

<sup>[1]</sup> The 9 million hectares of forested area in Poland includes 1.623 million hectares (17.9%) under private administration and 7.426 million hectares (82.1%) under public administration (7.060 under General Directorate of the State Forests – 78.1%). During past ten 10 years the structure of forest have not changed significantly (private increased by 0.9%).

<sup>[2]</sup> There are 23 national parks in Poland with total area of over 317.000 hectares, including almost 195.000 hectares of forests (61.4%). There are 1423 nature reserves on 169.000 hectares, including 103.000 hectares of forests. There are 120 landscape parks on total 2.603 million hectares, including 1.331 million hectares of forest areas (51.1%). There are also 413 protected nature objects on 7.050 million hectares, including 2.253 million hectares of forests (32%). Total area of protected landscape in Poland increased by 30% within 1980-2006 (from 3.2% to 31.9 % of total country area), and in 2007 it estimated at 9.970 million hectares. The increase in forested areas has been even higher: from 5.5 to 41.8% (36.3%).